

SUMMARY OF NEW INITIATIVES AND REQUIREMENTS FOR FY 2003 AND BEYOND

Department of Homeland Security

In accordance with guidance issued by the Federal Accounting Standards Advisory Board, net costs associated with activities that have subsequently been transferred to the Department of Homeland Security (DHS) need to be separately reported on the Statement of Net Costs when comparative statements are prepared. Therefore, for those functions that were transferred to DHS as of March 1, 2003, the net costs for FY 2002 and the net costs for the first 5 months of FY 2003 must be reported as "Transferred Operations" on this year's Net Cost of Operations statement.

In order to correctly segregate DHS operations, field offices will be required to:

- 1 - Identify all costs by Budget and Reporting Code (B&R) for the first 5 months for FY 2003 for those functions that were subsequently transferred to DHS as of March 1, 2003.
- 2 - Identify all costs by B&R for FY 2002 for those functions that were subsequently transferred to DHS as of March 1, 2003.

This information should be included with your third quarter financial statement analysis due July 25, 2003.

Prior Period Adjustments

Prior period adjustments are errors in financial statements that result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. When errors are discovered after the issuance of financial statements, corrections should be made if the financial statements would be materially misstated absent the corrections.

Previous guidance required field offices to use B&R YN0203000 to record prior period adjustments for material prior period adjustments and the YN0204 series of B&Rs for immaterial adjustments. The purpose of using the YN0204 B&Rs was to identify immaterial corrections at year-end for consideration, at an aggregate level, as to whether they were material and required reporting as restated prior year amounts. The use of YN0204 B&Rs for immaterial prior period adjustments caused additional efforts to be made at the Headquarters level to report costs correctly on the financial statements. To avoid this problem in the future, the following guidance should be followed for recording prior period adjustments:

- The YN0204 B&R series should no longer be used to enter immaterial prior period adjustments into the accounting system. Field offices should record

transactions that correct immaterial prior year errors using current year B&Rs with a Transaction Class Code (TCC) of PP. The use of the TCC PP will segregate the current year entries and allow the Office of Financial Control and Reporting (OFCR) to determine if the nonmaterial prior period adjustments are material enough when aggregated together to warrant restatement of prior period financial statements.

- If OFCR determines that the TCC PP entries are material when aggregated across the Department, the field offices will be requested to reverse the entry using the current year B&R, TCC PP, and record the amount using B&R YN0203000.
- Field offices must receive written approval from OFCR before using B&R YN0203000 for material prior period adjustments.

Your cooperation is needed to improve the controls over prior period adjustment reporting. Please ensure that all appropriate integrated contractor contacts are cognizant of these new requirements. Questions regarding prior period adjustments should be directed to Deanna Ammons at (301) 903-5374.

Interim and Accelerated Reporting

KPMG has requested DOE to provide them with a full accrual based set of financial statements (with accompanying footnotes) for the third quarter of FY 2003 and 2004. Guidance related to third quarter accruals may be found in the April 19, 2002, memorandum on Interim Financial Statements. Much of their audit work for FY 2003 and 2004 will be based on data contained in the June 30 financial statements. Due dates to KPMG will be August 29 and August 27 for FY 2003 and 2004 respectively.

FY 2003 audited yearend consolidated DOE financial statements will be submitted to OMB on December 15, 2003. OMB requirements specify that FY 2004 financial statements be prepared no later than November 15, 2004. The above dates require significant changes to future yearend closing schedules. We have begun work on a Financial Statement Acceleration Plan to meet the new reporting requirements and to facilitate auditors work processes. Field office representatives will be participating in our acceleration planning efforts. For additional information regarding interim and accelerated reporting, please contact Deanna Ammons on (301) 903-5374 or Scott Chayette on (301) 903-9705.

Expired and Cancelled Appropriations

Up until a few years ago, the Department was appropriated monies almost exclusively in no-year appropriation accounts. However, beginning in FY 1998, we started to receive more funding in annual appropriations. Public Law 101-510 revised the rules regarding the reporting of expired appropriations. The law requires that agencies keep any

remaining budget authority for 5 years after the appropriation expires to use in paying unliquidated obligations and liabilities on the books at expiration. At the end of the 5-year period, for that annual appropriation:

- all budgetary resources, both obligated and unobligated, are cancelled;
- DOE has to return the Fund Balance to Treasury; and
- any receivables and payables are cancelled for that appropriation

In FY 2003, DOE has two appropriations, 8980213 (fund type J8) and 8980224 (fund type Y8) that will be affected by the new rules and have to be cancelled at the end of the fiscal year. At year-end there should be no receivables, unfilled customer orders, undelivered orders, or accounts payable appearing on your FMS-2108 (i.e. columns 7, 8, 9 and 10). All balances, other than cash and unobligated allotments, remaining in these appropriations must be removed from your books as of September 30, 2003. Initial reports run for these appropriations as of March 31, 2003, indicate that most field offices have balances remaining in various accounts. For fund type J8, it appears that no field offices have balances remaining in any accounts except for cash and unobligated allotments, and therefore no action is required. However, for fund type Y8, most offices have balances in one or more of the following accounts: accrued expenditures, uncosted/unpaid obligations, commitments, and advances.

Please review your fund type Y8 balances and begin to make the necessary entries to remove these balances from your books as soon as possible. It will be much easier to research and resolve issues and problems now rather than in September or October. Also, it is suggested that you begin looking at any balances remaining in annual appropriations set to expire in FY 2004 and start the process of removing balances as appropriate. If you have any questions regarding accounting for expired appropriations, please contact Barbara Harbell on (301) 903-3774.